### REGULATORY AUDIT OF PACIFIC BELL FOR THE YEARS 1997, 1998 AND 1999

### Prepared for:

### California Public Utilities Commission

#### SUPPLEMENTAL REPORT:

**Chapter 5 - Revenue and Other Operating Income** 

**Chapter 6 - Operating Expenses** 

**Chapter 8 - Depreciation** 

Chapter 10 - Net Plant

**Chapter 11 - Other Rate Base Items** 

**Chapter 12 - Affiliate Transactions Overview** 

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#### **Introduction**

This supplemental report updates the <u>Regulatory Audit of Pacific Bell</u> issued on February 21, 2001 to reflect responses to data requests received after December 31, 2001.

Supplemental Chapters 7 and 8 were submitted in Phase 2-A of this proceeding on May 8, 2002. Those supplemental chapters addressed Employee Benefits and Income Taxes and are not reproduced in this document.

This supplemental report contains the following new or revised audit corrections to pre-tax operating income. The pre-tax amount shown for revised corrections reflects the change compared to the original amount contained in the audit report.

Chapter	Description	Pre-Tax Operating Income (Thousands)	New or Revised
5	Percentage Of Intrastate Use Accrual	\$(14,673)	New
5	USOAR Turnaround Accrual	(23,123)	New
6	Local Number Portability Costs	32,919	Revised
6	Local Number Portability - Depreciation	8,109	New
8	Equal Access Depreciation	(758)	Revised
	Total	\$2,474	

This supplemental report also contains the following adjustments to rate base. The amounts shown below are the three year average corrections for the audit period.

Chapter	Description	Rate Base Amount (Thousands)	New or Revised
6	Local Number Portability Capital Costs	\$(30,261)	New
10	Allowance For Funds Used During Construction	(7,887)	New
10	PBOP Pre-Funding Plant Adjustment	13,312	New
11	Cash Working Capital -Directory Purchased Accounts Receivable	(21,054)	New
11	Cash Working Capital - Income tax expense lag	(121,694)	Revised
11	Cash Working Capital - Impact of corrections recommended in other chapters	(17,109)	Revised
11	Prepaid Pension Costs - Impact of pension correction revision	(8,979)	Revised
	Total	\$(193,672)	

In addition, this supplemental report addresses data request responses in the following areas that did not result in a new correction or a revision to a previous correction.

- C Revision to California Surcharge Revenue Table 5-3 (Chapter 5)
- C ACN Vendor Credit (Chapter 6)
- C Restructuring Reserve Plant Adjustment (Chapter 10)
- C Computer Equipment Inventory (Chapter 10)

## <u>Chapter 5 - Revenue and Other Operating Income</u> <u>Supplemental Report</u>

This supplemental chapter addresses the data responses Pacific Bell provided subsequent to December 31, 2001 concerning operating revenue and other operating income. The 12 data requests outstanding as of December 31, 2001 are listed on Attachment S5-1. This supplemental chapter contains the following findings.

- C Intrastate regulated revenues are overstated by \$15 in 1997 as a result of Pacific Bell's failure to properly accrue its liability for a dispute with a long-distance carrier concerning the percentage of interstate use (PIU) factor in 1996.
- Intrastate regulated revenues are overstated by \$23 million in 1997 as a result of the reversal of a 1996 over-accrual for a potential ratemaking refund for the USOAR turnaround issue.

The PIU and USOAR liability accruals were not addressed in the audit report because Pacific Bell had not provided the information needed to address the issues.

#### I. Percentage of Intrastate Use

Percentage Interstate Use (PIU) access billing factors are used to determine the allocation of switched access usage between intrastate and interstate for purposes of billing access charges to long-distance carriers. Carriers that conduct business in California are allowed under tariff to change their PIU allocation on a quarterly basis.<sup>1</sup>

Prior to the third quarter of 1996, a dispute arose between Pacific Bell and a long-distance carrier concerning the determination of the PIU factor for that carrier. The dispute is described in the response to data request OC-1145, received on March 13, 2002. Pacific Bell has marked the response to OC-1145 as proprietary information. Accordingly, the dispute will not be described in more detail in this report.

Pacific Bell entered into a settlement with the long-distance carrier in 1997. The settlement covered the billing period of July 10, 1996 through March 1, 1997. The settlement shifted switched access usage from interstate to intrastate. Pacific Bell recorded the settlement in August 1997. The entries made to record the settlement increased intrastate access revenue.<sup>2</sup> A portion of the settlement related to switched access usage that occurred in 1996.

The dispute arose in 1996. Pacific Bell should have accrued the portion of the dispute related to 1996 services in 1996. As a result of Pacific Bell's failure to accrue the dispute in 1996, Intrastate Access Revenues are understated in 1996 and overstated in 1997. The required correction reduces 1997 Intrastate Access Revenues by \$14,673,000.

Pacific Bell has marked the response to OC-1145 as proprietary. Accordingly, the calculation of the adjustment amount is not shown in this supplemental chapter.

<sup>&</sup>lt;sup>1</sup> OC-1145

<sup>&</sup>lt;sup>2</sup> OC-1145

#### II. USOAR Turnaround

The response to Data Request OC-1186, received on January 28, 2002, describes a regulatory liability accrual Pacific Bell recorded in 1996 and reversed in 1997 for the "USOAR Turnaround" issue.

The CPUC adopted the FCC's revised Uniform System of Accounts (USOA), with certain modifications, in D.87-12-063, dated December 22, 1987. The revised USOA provided for charging overhead costs to expense that were previously capitalized as construction costs. Page 9 of D.87-12-063 contains the following discussion of that change.

Certain indirect construction costs, comprised of approximately twenty distinct components, currently capitalized are to be expensed under Part 32. Such indirect costs include general office overheads, labor related additives, property taxes, and loss of materials and supplies associated with construction projects.

Although this accounting change will increase the utilities' revenue requirements during the initial years of implementation, a cross over point, where revenue requirement is to go negative, is estimated by DRA to occur in the mid-1990s.

Approximately seven years after implementation, this accounting change will result in a revenue requirement savings because its adoption will reduce the utilities' recorded rate base. To illustrate, adoption...will increase Pacific Bell's revenue requirement by approximately \$118 million....In 1993, Pacific Bell's additional revenue requirement is to be reduced by \$112 million to \$6 million (\$118 million minus \$112 million equals \$6 million)...Revenue requirement savings are to incur starting in 1994.

The CPUC authorized Pacific Bell to recover the increased revenue requirements resulting from the adoption of the revised USOA through a balancing account mechanism. D.88-09-030, dated September 14, 1988, required Pacific Bell to reflect the annual reductions in revenue requirements resulting from the gradual reduction in rate base in its annual attrition filings.

The CPUC adopted the new regulatory framework ("NRF") for Pacific Bell in D.89-10-031. The CPUC established Pacific Bell's start-up revenue requirement under NRF in D.89-12-048, dated December 18, 1989. D.89-12-048 includes the following discussion of "USOAR Turnaround" rate adjustments.

D.88-09-030 provided for annual USOA rewrite (USOAR) turnaround adjustments because USOA capital to expense shifts will result in yearly revenue requirement reductions....

\* \* \* \* \*

The USOA accounting changes leading to the turnaround adjustments are exactly the type of regulatory changes which we contemplated when allowing for recognition of exogenous factors in the price cap indexing mechanism. Further, the Commission previously recognized that there would be yearly revenue requirement reductions arising from the USOAR and provided that ratepayers should receive the benefits of those cost reductions through yearly revenue adjustments. Contrary to Pacific's and GTEC's assertions, basing the startup revenue adjustment on 1989 recorded rate base in no way captures the fact that due to the USOAR 1990 rate base will be lower than 1989 rate base. Consistent with the finding in D.88-09-030 that the USOA

capital to expense shift will result in a yearly revenue requirement reduction and the conclusion that ratepayers should realize the benefit of reduced revenue requirement impacts that will occur in future years, we conclude that USOAR turnaround adjustments should continue under the new regulatory framework through recognition as exogenous factors.

Pacific Bell proposed USOAR Turnaround Z-factor adjustments to reduce its revenues by \$23 million annually in its 1991, 1992, 1993 and 1994 Price Cap filings.<sup>3</sup>

Pacific Bell proposed termination of the USOAR Turnaround rate adjustment in its 1995 price cap filing. The CPUC rejected Pacific Bell's proposal to terminate the USOAR turnaround rate adjustment in Resolution T-15695, dated December 21, 1994. That resolution states:

...[W]e cannot agree with Pacific that it has returned sufficient benefits to ratepayers resulting from the USOA Turnaround. We believe Pacific's analysis of net ratepayer benefits to be limited and to ignore the contributory nature of six years of higher rates directly resulting from the capital to expense shifts....

....We require Pacific to continue the USOA Turnaround adjustment for \$23.123 million until the Commission has specifically ordered its suspension or termination.

Resolution T-15695 instructed Pacific Bell to file an application if it desired to terminate the USOAR turnaround adjustments. Pacific Bell filed an application to eliminate the USOAR turnaround rate adjustments in May 1995. D.95-11-061 suspended the 1996 price cap USOAR turnaround rate adjustment and required Pacific Bell to establish an interest-bearing memorandum account for the potential 1996 rate reduction. D.96-11-006, dated November 11, 1996, suspended the 1997 price cap adjustment.

Pacific Bell accrued a \$23 million contingent liability for the suspended USOAR turnaround adjustment in 1996. Pacific Bell reversed that accrual in December 1997. <sup>5</sup>

Pacific Bell's 1998 10-K report contains the following description of the resolution of the USOAR Turnaround issue.

PacBell filed an application in 1995 to terminate the rate reductions and with subsequent CPUC approval, halted rate reductions for 1996, 1997 and 1998, pending the outcome of hearings. In September 1998, the CPUC issued a decision that grants PacBell's request to discontinue the rate reductions.

The accrual recorded in 1996 for the USOA turnaround issue exceeded the actual liability by \$23.123 million. Pacific Bell reversed the 1996 over-accrual in 1997. As a result of the 1996 over-accrual and subsequent reversal, 1997 revenues were overstated by \$23.123 million. Therefore a correction is required to decrease 1997 intrastate regulated revenues by \$23.123 million.

<sup>&</sup>lt;sup>3</sup> OC-512

<sup>4</sup> OC-512

<sup>&</sup>lt;sup>5</sup> OC-1186

#### III. Revision To California Surcharge Revenue Table 5-3

Table 5-3 provides a break-down of the revenues recorded in Pacific Bell's California Surcharge Revenue accounts by component. As noted on Table 5-3, certain 1997 and 1999 amounts shown on the table were estimated. The response to Data Request OC-1279, received on January 22, 2002, provides the actual amounts for 1997 and 1999. The following table supercedes Table 5-3.

Table S5-1						
California Surcharge Revenue by Component						
FCC Ac	counting Basis					
Increase Reven	ue / (Decrease I	Revenue)				
(Dollar	s in Thousands)					
Source: OC-871 and OC-1279						
Description	1997	1998	1999			
Basic Surcharge	(191,080)	(278,372)	(443,276)			
CHCF - B Rate Reduction Accrual	(275,000)	(200,000)	0			
USOAR Turnaround Accrual	23,122	0	0			
Merger Refund Accrual		52,260	56,890			
Z-Factor Accruals and Other	12,746	0	(16)			
Total	(430,212)	(426,112)	(386,402)			

The revisions to the table do not impact any of the recommended corrections to audit period revenues or costs.

## PACIFIC BELL SUPPLEMENTAL CHAPTER 5 -REVENUE AND OTHER OPERATING INCOME

DR NO.	DESCRIPTION		SUBMITTED	RECEIVED	STATUS
730	JURISDICTIONAL ADJUSTMENT -TPX	1	4/30/01	1/30/02	NR
890	UNIVERSAL SERVICE FUND REVENUES	2	7/5/01	2/1/02	С
1145	PIU SETTLEMENTS	3	9/10/01	3/13/02	С
1212	ACCOUNTS 5001 AND 5004 - REVENUE FLUCTUATIONS	4	10/8/01	1/3/02	С
1214	ACCOUNT 5084 - REVENUE FLUCTUATIONS	5	10/8/01	2/26/02	С
1215	ACCOUNT 5100 - REVENUE FLUCTUATIONS	6	10/8/01	1/3/02	С
1216	ACCOUNT 5240 - REVENUE FLUCTUATIONS	7	10/8/01	2/4/02	С
1217	ACCOUNT 5264 - REVENUE FLUCTUATIONS	8	10/8/01	1/10/02	С
1218	ACCOUNT 5270 - REVENUE FLUCTUATIONS	9	10/8/01	2/11/02	С
1219	ACCOUNT 5280 - REVENUE FLUCTUATIONS	10	10/8/01	1/25/02	С
1220	UNIVERSAL SERVICE FUND REVENUE ACCRUALS	11	10/8/01	1/31/02	С
1221	UNCOLLECTIBLE REVENUE - FLUCTUATIONS	12	10/8/01	1/31/02	С

DISCOVERY OUTSTANDING AS OF DECEMBER 31, 2001

STATUS: C = COMPLETE; NR = NONRESPONSIVE

## <u>Chapter 6 - Operating Expenses</u> <u>Supplemental Report</u>

This supplemental chapter addresses the data responses Pacific Bell provided after December 31, 2001 concerning operating expenses other than employee benefits, depreciation and income taxes. The 36 data requests outstanding as of December 31, 2001 are listed on Attachment S6-1. This supplemental chapter contains the following findings.

- The local number portability (LNP) cost correction recommended in the Audit Report should be revised to reflect the LNP costs recovered through Pacific Bell's FCC approved LNP tariff. The original correction reduced intrastate regulated operating expenses by \$138 million. The revised correction reduces intrastate regulated operating expenses by \$171 million.
- C Intrastate regulated plant and depreciation should be reduced to reflect the recovery of local number portability capital costs through the FCC approved LNP tariff. Intrastate regulated net plant should be reduced by an average of \$30 million during the audit period. Intrastate regulated depreciation expense should be reduced by \$8 million during the audit period.
- C The vendor credit received in the ACN project cancellation settlement provides an additional basis for the ACN project shut-down cost correction recommended in the audit report.

The revision to the LNP expense correction reduces intrastate regulated operating expenses by \$33 million. The LNP capital cost correction was not addressed in the audit report because Pacific Bell had not provided the information needed to calculate the correction amount. The ACN vendor credit provides an additional reason to charge all ACN project shut-down costs to below-the-line accounts, as recommended on page 6-30 of the audit report.

#### I. <u>Local Number Portability Costs</u>

The \$138 million correction for local number portability costs ("LNP") recommended in the Audit Report reflected preliminary data. Page 6-19 of the Audit Report states:

The \$138 million LNP correction reflects amounts provided by Pacific Bell in the response to Data Request OC-508. Pacific Bell provided the cost support for the FCC LNP tariff on December 28, 2001 in response to Data Request OC-1258. The 1997 through 1999 operating expenses recovered through the FCC tariff are \$38 million higher than the LNP operating expenses reported in the response to OC-508. The LNP correction should reflect the operating expenses recovered through the FCC tariff. We will revise the LNP correction after we have fully analyzed the response to OC-1258.

As noted on page 6-18 of the Audit Report, the LNP costs recovered through the FCC tariff should be directly assigned to the interstate jurisdiction. The FCC has affirmatively and directly asserted jurisdiction over the LNP costs recovered through the FCC tariff. Therefore, the costs used to develop the FCC tariff should be assigned directly to the interstate jurisdiction.

C The local number portability (LNP) cost correction recommended in the Audit Report should be revised to reflect the LNP costs recovered through Pacific Bell's FCC approved LNP tariff. The original correction reduced intrastate regulated operating

expenses by \$138 million. The revised correction reduces intrastate regulated operating expenses by \$171 million.

The revised correction is calculated below.

Table S6-1  Local Number Portability Costs  Revised Correction  Reduce Intrastate Regulated Expense  (Amounts in Thousands)					
Source: OC-	1258 and Attachm	ent 6-3			
	Total Operating	Separations	Intrastate		
Year	Expense	Factor (1)	Correction		
1997	109,205	0.7930	86,600		
1998	61,383	0.7672	47,093		
1999	38,971	0.9660	37,646		
Total	209,559		171,339		
Note 1: Aver	age Separations F	actor Used by Paci	fic Bell.		

C Intrastate regulated plant and depreciation should be reduced to reflect the recovery of local number portability capital costs through the FCC approved LNP tariff.

Intrastate regulated net plant should be reduced by an average of \$30 million during the audit period. Intrastate regulated depreciation expense should be reduced by \$8 million during the audit period.

The FCC tariff also provides for the recovery of \$61.5 million in capital equipment costs. Those plant costs, and the related depreciation expense, should also be directly assigned to the interstate jurisdiction. Attachment S6-2 shows the adjustments to plant and depreciation expense needed to correct the separations treatment of LNP capital costs. As can be seen on Attachment S6-2, the corrections reduce audit period net plant and depreciation expense by the following amounts.

Table S6-2 Local Number Portability Costs Correction to Net Plant and Depreciation Expense Intrastate Regulated (Amounts in Thousands)				
Source: OC-1258,	OC-629 and Attach	nment 6-3		
Year	Net Plant	Depreciation		
1997	(14,482)	(1,180)		
1998	(32,794)	(2,678)		
1999	(43,507)	(4,247)		

#### II. ACN Vendor Credit

Pacific Bell terminated the construction of its Advanced Communications Network (ACN) project in June 1997. Pacific Bell charged the write-off of its investment in the ACN to below-the-line accounts. However, Pacific Bell charged \$41 million of project shut-down expenses to intrastate regulated operating expense. Page 6-30 of the Audit Report recommended a correction to transfer those shut-down expenses to below-the-line accounts. The correction recognized that the ACN was never placed into service and never provided regulated services. Therefore, the project shut-down costs should not be charged to regulated accounts.

Pacific Bell entered into a settlement agreement with the ACN vendor. As part of that settlement, Pacific Bell received \$200 million in credits against outstanding invoices for the purchase of telecommunications equipment that was unrelated to the ACN project. <sup>2</sup> Pacific Bell charged the gross pre-credit cost of the "unrelated" telecommunications equipment to it plant accounts. Pacific Bell credited the entire amount of the purchase price credits to below-the-line accounts as an offset to the write-off of its investment in the ACN. Page 6-30 of the Audit Report notes:

Pacific Bell has not provided any support for its decision not to use any of the \$200 million payment it received from the ACN vendor to offset the shut-down costs charged to operating expense. We will determine the proper accounting treatment for the vendor payment after Pacific Bell responds to Data Request OC-867.

Pacific Bell never adequately responded to all of the parts of Data Request OC-867. Part 1 of OC-867 asked Pacific Bell to explain the basis of Pacific Bell's claim against the vendor. Pacific Bell's response simply notes that the payment was received as part of the settlement. Part 3 of OC-867 asked Pacific Bell to provide the documents that set forth Pacific Bell's claims against the vendor. The response to that part consist of two letters that discuss the mechanics of implementing the purchase credits but do not discuss the basis for Pacific Bell's claim against the vendor.

Part 4 of OC-867 asked Pacific Bell to explain why none of the settlement was accounted for as a reimbursement of the project shut-down costs. The response states:

The payment received from the ACN vendor was part of a negotiated settlement.

In section 4 of [the settlement] document, Pacific Bell agreed to be solely responsible for paying off the Trust upon receipt of [the vendor's] payment. Since termination of the trust was contingent upon this payment, the termination costs must be reflected on a net basis under generally accepted accounting principles.

In section 9 of [the settlement] document, each party accepted responsibility for its own costs incurred in shutting down the project.

The reasons cited by Pacific Bell do not justify its decision not to credit any of the vendor settlement against the project shut-down costs charged to above-the-line accounts. The project shut-down costs are project termination costs. As Pacific Bell notes termination costs must be reflected on a net basis. Therefore, some portion of the purchase credits should have been used to reduce project shut-down costs.

<sup>&</sup>lt;sup>1</sup> Audit Report page 6-27

<sup>&</sup>lt;sup>2</sup> OC-867

The section of the settlement stating that each party accepted responsibility for its own shut-down costs does not justify a decision not to credit part of the vendor settlement against the shut-down costs. The assignment of shut-down costs contained in the settlement means that Pacific Bell cannot seek recovery of shut-down costs beyond the \$200 million in purchase credits provided in the settlement. It does not mean that none of the \$200 million is properly attributable to shut-down costs. The vendor was not impacted by Pacific Bell's internal accounting for the settlement. Including a provision in the settlement to govern Pacific Bell's internal accounting for the settlement would have been pointless. Therefore, the assignment of responsibility for shut-down costs should not be read as governing Pacific Bell's accounting for the \$200 million settlement.

C The vendor credit received in the ACN project cancellation settlement provides an additional basis for the ACN project shut-down cost correction recommended in the audit report.

The \$200 million in purchase credits represented reimbursement for ACN termination costs. Therefore, some portion of the purchase credits should have been accounted for as reimbursement of project shut-down costs. Pacific Bell recorded the entire purchase credit in below-the-line accounts. Thus, assuming for the sake of argument that some of the ACN shut-down costs should have been charged above the line, Pacific Bell should have reduced the \$41 million in shut-down costs it charged above the line to reflect an appropriate portion of the vendor credit.

Two approaches are available for attributing part of the purchase credits to the shut-down costs. The first approach is to assign the credits first to the shut-down costs with the residual amount assigned to sunk plant costs. That approach is consistent with the commonly used approach of applying settlement proceeds first against the prospective incremental costs of obtaining the settlement. For example, settlements are frequently accounted for as first reimbursing litigation costs with the residual being applied against sunk costs. The second approach would be a pro-rata allocation of the purchase credit against all of the ACN termination costs, including the sunk equipment costs.

Pacific Bell has not responded to Overland's requests for a description of the basis for the \$200 million settlement. Pacific Bell has not provided the documents setting forth the basis for its claim against the vendor. As a result, the available information is not sufficient to determine which accounting approach should be used to allocate the purchase credits to the shut-down costs recorded above the line. Fortunately, determining the proper allocation approach is not necessary because, as noted in the Audit Report, all of the shut-down costs should have been charged to below-the-line accounts.

# PACIFIC BELL SUPPLEMENTAL CHAPTER 6 - OPERATING EXPENSES DISCOVERY OUTSTANDING AS OF DECEMBER 31, 2001

DR NO.	DESCRIPTION		SUBMITTED	RECEIVED	STATUS
519	MERGER REFUND ACCOUNTING	1	1/23/01	1/11/02	С
725	JURISDICTIONAL ADJUSTMENT - ITC	2	4/30/01	1/7/02	С
726	JURISDICTIONAL ADJUSTMENT - LRB	3	4/30/01	1/7/02	С
727	JURISDICTIONAL ADJUSTMENT - PCA	4	4/30/01	1/7/02	С
731	JURISDICTIONAL ADJUSTMENT - UNC	5	4/30/01	2/1/02	С
734	JURISDICTIONAL ADJUSTMENT - SPF	6	4/30/01	1/7/02	С
861	CONTINGENT LIABILITY AUDIT REVIEW	7	6/22/01	1/31/02	NR
867	A.C.N VENDOR PAYMENT	8	6/22/01	12/21/02	NR
877	RCRMS SYSTEM ERRORS	9	6/22/01	1/24/02	С
885	ACCESS EXPENSE-RECIPROCAL COMPENSATION	10	7/5/01	1/24/02	С
894	UNCOLLECTIBLE ACCRUALS - RCRMS	11	7/5/01	1/29/02	С
899	LITIGATION DAMAGES AWARDS	12	7/5/01	1/21/02	С
947	ACCOUNT 6535 EXPENSE FLUCTUATIONS	13	7/13/01	1/9/02	С
949	ADVERTISING COSTS	14	7/13/01	1/21/02	NR
965	LOCAL NUMBER PORTABILITY COST DEFERRALS	15	7/13/01	1/24/02	С
967	LOCAL COMPETITION COSTS	16	7/13/01	1/24/02	С
972	ACCOUNT 6212 EXPENSE FLUCTUATIONS	17	7/13/01	1/28/02	С
974	ACCOUNT 6532 EXPENSE FLUCTUATIONS	18	7/13/01	1/10/02	NR
1001	JURISDICTIONAL ADJUSTMENT - REG	19	8/6/02	2/4/02	NR
1002	JURISDICTIONAL ADJUSTMENT - REG	20	8/6/02	2/4/02	NR
1002	CONTINGENT REG. AND LITIGATION LIABILITIES	21	8/6/02	1/31/02	NR
1004	CONTINGENT REG. AND LITIGATION LIABILITIES	22	8/6/02	2/6/02	NR
1005	JURISDICTIONAL ADJUSTMENT - MLL	23	8/6/02	2/11/02	NR
1006	JURISDICTIONAL ADJUSTMENT - MLL	24	8/6/02	2/4/02	NR
1007	JURISDICTIONAL ADJUSTMENTS - PCC AND SUT	25	8/6/02	2/6/02	NR
1068	MERGER EXPENSE- IMPLEMENTATION PLANS	26	8/20/01	1/31/02	С
1111	CUSTOM WORK ORDER BILLING SYSTEM	27	8/31/01	1/22/02	С
1128	LEGAL EXPENSE	28	9/5/01	1/10/02	NR
1151	IEMR RATEMAKING ADJ. EXECUTIVE COMPENSATION	29	9/14/01	1/28/02	С
1153	IEMR RATEMAKING ADJ. EXECUTIVE COMPENSATION	30	9/14/01	1/28/02	NR
1168	IEMR RATEMAKING ADJ - RESTRUCTURING RESERVE	31	9/19/01	2/1/02	С
1259	RCRMS AT&T & SPRINT SETTLEMENTS	32	10/25/01	2/26/02	С
1261	EXPENSE ACCOUNT FLUCTUATIONS	33	10/25/01	2/4/02	С
1267	1998 SOFTWARE BUYOUT	34	11/15/01	1/30/02	С
1268	1998 SOFTWARE BUYOUT	35	11/15/01	2/7/02	С
1269	1998 SOFTWARE BUYOUT	36	11/15/01	12/31/01	С

## PACIFIC BELL LNP NET PLANT AND DEPRECIATION EXPENSE CORRECTION (DOLLARS IN THOUSANDS)

YEAR	EXPENDITURE	CUMULATIVE	AVERAGE	AVERAGE DEPR. RATE		ACCUMULATED DEPRECIATION	NET PLANT	INTRASTATE REGULATED FACTOR	INTRASTATE REGULATED DEPRECIATION	INTRASTATE REGULATED NET PLANT	AVERAGE NET PLANT
1997	37,988	37,988	18,994	0.0770	1,463	1,463	36,525	0.7930	1,160	28,965	14,482
1998	14,703	52,691	45,340	0.0770	3,491	4,954	47,737	0.7672	2,678	36,624	32,794
1999	8,822	61,513	57,102	0.0770	4,397	9,351	52,162	0.9660	4,247	50,389	43,507
_	61,513				9,351			-	8,086		

NOTE: AVERAGE	DEPRECIATION RA	ATE	DEPRECIATION	ANNUAL	
FRC		AMOUNT	RATE	DEPRECIATION	
117C	OP. SYSTM	3,124	0.0960	300	
377C	DIGITAL SWITCH	27,509	0.0710	1,953	
277C	DIGITAL SWITCH	12,224	0.0710	868	
77C	ANALOG SWITCH	810	0.0000	0	
117C	OP. SYSTM	3,260	0.0960	313	
361C	GEN PUR COMP.	3,467	0.1180	409	
377C	DIGITAL SWITCH	8,923	0.0710	634	
361C	GEN PUR COMP.	2,196	0.1180	259	
		61,513	0.0770	4,736	

SOURCE: OC-1258, OC-629 AND ATTACHMENT 6-3

### <u>Chapter 8 - Depreciation</u> <u>Supplemental Report</u>

This supplemental chapter address the data responses Pacific Bell provided after December 31, 2001 concerning depreciation. The seven data requests outstanding as of December 31, 2001 are listed on Attachment S8-1. This supplemental chapter contains the following findings.

C The equal access depreciation correction recommended in the Audit Report should be modified to reflect the response to OC-1222. The correction recommended in the Audit Report increased intrastate regulated depreciation by \$10.2 million. The revised correction increases depreciation expense by \$10.9 million.

The revision to the equal access depreciation correction increases intrastate regulated depreciation expense by \$758 thousand.

#### I. Equal Access Depreciation IEMR Ratemaking Adjustment

Pacific Bell recovered its equal access plant costs through a surcharge that was discontinued in March 1993. The plant costs are included in Pacific Bell's recorded plant in service. Accordingly, Pacific Bell makes an IEMR ratemaking adjustment to remove the plant costs from rate base. The equal access IEMR ratemaking adjustment also reduces depreciation expense to eliminate the depreciation for the plant costs recovered through the surcharge.<sup>1</sup>

The 1998 depreciation adjustment made by Pacific Bell was not reasonable compared to the related plant adjustment. Accordingly, the Audit Report recommended a correction to depreciation expense. The correction reflected an estimate based on the relationship between the 1997 plant and depreciation adjustments. Page 8-9 of the Audit Report noted:

Data Request OC-1222, submitted on October 8, 2001, requested support for the equal access depreciation adjustments made by Pacific Bell and an explanation for the year-to-year fluctuations in the amount of the adjustments. As of December 31, 2001, that data request was still outstanding. The correction described above is subject to change based on the response to Data Request OC-1222.

Pacific Bell responded to Data Request OC-1222 on January 14, 2002. The response to that request contains the following description of the error made in 1998.

The amount reported for Depreciation in 1988 was incorrect. Each month's ending balance was added together rather than each month's incremental activity. The correct amount is \$1.9 million for 1998.

The revised correction is shown below.

<sup>&</sup>lt;sup>1</sup> Audit Report page 8-8

Table S8-1  Equal Access IEMR Ratemaking Adjustment  Revised Correction -Depreciation Expense  (Amounts in Thousands)							
Source: OC-1222	Source: OC-1222 and OC-66						
Year	Per Pacific Bell	Corrected Adj.	Correction				
1997	(2,122)	(2,122)	0				
1998	(12,899)	(1,968)	10,931				
1999	(739)	(739)	0				
Total	(15,760)	(4,829)	10,931				

The original correction recommended in the Audit Report increased depreciation expense by \$10.173 million. The difference between the original correction and the revised correction is \$758 thousand.

# PACIFIC BELL SUPPLEMENTAL CHAPTER 8 - DEPRECIATION DISCOVERY OUTSTANDING AS OF DECEMBER 31, 2001

DR. NO	DESCRIPTION		SUBMITTED	RECEIVED	STATUS
635	2000 CAPITAL BUDGET	1	3/13/02	5/11/01	NR
1116	NETWORK EQUIP. REPLACEMENT PLANS	2	8/31/01	12/31/01	С
1117	CABLE AND WIRE REPLACEMENT PLANS	3	8/31/01	2/4/02	С
1120	IDC DEPRECIATION JURISDICTIONAL ADJUSTMENT	4	8/31/01	2/4/02	С
1189	DEPRECIATION RESERVE JURISDICTIONAL ADJ.	5	9/25/01	1/25/02	NR
1222	IEMR EQUAL ACCESS ADJUSTMENT	6	10/8/01	1/14/02	С
1224	ATTACHMENT 3 TO DENNIS EVANS COMMENTS	7	10/8/01	1/15/02	С

STATUS: C = COMPLETE; NR= NONRESPONSIVE

### <u>Chapter 10 - Net Plant</u> <u>Supplemental Report</u>

This supplemental chapter addresses the data responses Pacific Bell provided after December 31, 2001 concerning plant and accumulated depreciation. The eight data requests outstanding as of December 31, 2001 are shown on Attachment S8-1. The findings included in this supplemental chapter are listed below.

- C The intrastate AFUDC rates used by Pacific Bell were overstated and unreasonable during the audit period. As a result, Pacific Bell's intrastate net plant balances are overstated by an average of \$8 million.
- C Intrastate regulated net plant is understated by \$13 million as a result of Pacific Bell's failure to properly account for PBOP "pre-funding" contributions made prior to the adoption of FAS 106.

The AFUDC and PBOP pre-funding corrections were not made in the Audit Report because Pacific Bell had not provided the information needed to address those issues.

This supplemental chapter also (1) addresses a data response that confirms the validity of the restructuring reserve plant correction recommended in the Audit Report and (2) corrects the description of a computer equipment physical inventory contained on page 10-17 of the Audit Report.

#### I. Allowance For Funds Used During Construction

The Audit Report concluded that the Allowance For Funds Used During Construction (AFUDC) rates used by Pacific Bell for CPUC purposes were overstated and unreasonable. Specifically, the Audit Report concluded that Pacific Bell's imputation of "negative funding sources" in its AFUDC rate calculations violated CPUC resolution RF-4 and did not have any basis in regulatory, accounting or finance theory. However, Overland was not able to quantify the impact of the improper AFUDC rates because of delays in receiving information. Page 10-21 of the Audit Report states:

Data Request OC-1242, dated October 19, 2001, requested the AFUDC investment base used to calculation the IDC jurisdictional adjustment for each month during the audit period. As of December 31, 2001, Pacific Bell had not responded to that request...We will complete our analysis of AFUDC after Pacific Bell responds to Data Request OC-1242.

Pacific Bell responded to OC-1242 on January 10, 2002. The corrections to net plant and depreciation expense needed to correct Pacific Bell's imputation of negative funding sources are shown below.

<sup>&</sup>lt;sup>1</sup> Audit Report page 10-21

Table S11-1  AFUDC Correction  Net Plant and Depreciation Expense  Intrastate Regulated  (Amounts in Thousands									
Source: OC-535, OC-430 a	nd OC-1242								
Description 1997 1998 1999									
Av erage Net Plant	(2,327)	(8,370)	(12,964)						
Depreciation Expense	(178)	(656)	(1,690)						

The recommended correction shown above is limited to AFUDC plant additions recorded in 1997, 1998 and 1999. Pacific Bell also improperly imputed "negative funding sources" in its AFUDC rate calculations in years prior to the audit period. As a result, Pacific Bell's recorded plant balances include overstated AFUDC recorded prior to the beginning of the audit period. However, restating AFUDC recorded prior to the commencement of the audit period is beyond the scope of this audit.

#### II. PBOP Pre-Funding Plant Adjustment

The VEB jurisdictional adjustment reduces net plant by \$37 million each year during the audit period. The VEB jurisdictional adjustment is described on page 10-11 of the Audit Report. That page notes "Data Requests OC-1276 and OC-1277, submitted on January 4, 2002, requested support for the recorded jurisdictional adjustment. We will complete our analysis of the VEBA Trust jurisdictional adjustment after Pacific Bell responds to those data requests."

The response to Data Request OC-1276 notes that the VEB jurisdictional adjustment is static and the balances have not changed since the CPUC adopted FAS 106 in 1993. The response to OC-1276 also notes that the VEB net plant jurisdictional adjustment consists of three parts: (1) the effects of the accelerated FCC adoption of FAS 106 in 1992; (2) FCC rate recovery of interstate VEBA 3 trust fund contributions; and (3) differences in the FCC and CPUC treatment of the FAS 106 TBO.

The contributions to the VEBA 3 trust were made prior to the adoption of FAS 106 and are referred to as FAS 106 pre-funding. The Supplement to Chapter 7, Employee Benefits, concluded that Pacific Bell should have expensed the contributions to the VEBA 3 trust when they were made.

C Intrastate regulated net plant is understated by \$13 million as a result of Pacific Bell's failure to properly account for PBOP "pre-funding" contributions made prior to the adoption of FAS 106.

Pacific Bell charged the PBOP pre-funding to expense for FCC accounting purposes. Pacific Bell improperly accounted for the FAS 106 pre-funding contributions as prepaid PBOP assets for CPUC purposes. The \$37 million reduction in net plant recorded by the VEB jurisdictional adjustment includes a credit to remove the portion of the pre-funding that was capitalized as plant for FCC accounting purposes. The proper CPUC accounting for the pre-funding did not vary from the actual FCC accounting. Therefore, a jurisdictional adjustment is not required for the pre-funding and a correction should be made to eliminate the portion of the VEB jurisdictional adjustment attributable to the pre-funded contributions. That correction is calculated below.

Table S10-2  Net Plant VEB Jurisdictional Adjustment  Correction for FAS 106 Pre-Funding  (Thousands of Dollars)							
Source: D.92-12-015, page 51 and OC-1277							
Description	Amount						
Pre-funded Contributions	208,000						
Intrastate Factor	0.80						
Intrastate Amount	166,400						
Percent to Plant (OC-1277)	0.08						
Increase Net Plant	13,312						

#### III. Restructuring Reserve Plant Adjustment

Page 10-22 of the Audit Report contains the following finding.

C Intrastate net plant is overstated by an average of \$29 million as a result in an error in Pacific Bell's Restructuring Reserve IEMR ratemaking adjustment.

The recommended correction eliminated the net plant impact of Pacific Bell's RAO jurisdictional adjustment and its IEMR Restructuring Reserve adjustment. The correction is explained on page 10-22 of the Audit Report. Page 10-23 of the Audit Report notes:

Data Request OC-1190, submitted on September 25, 2001, asked Pacific Bell to explain why the restructuring reserve adjustment does not completely offset the RAO jurisdictional adjustment to plant. As of December 31, 2001, Pacific Bell had not responded to that request.

Pacific Bell responded to Data Request OC-1190 on February 1, 2002. The response indicates "the IEMR restructuring reserve adjustments to plant and depreciation reserve do not offset the C3 RAO adjustment because recent activity has not been tracked to the RAO code." The response to OC-1190 also indicates "plant and depreciation reserve balances on the General Ledger for tracking code RAO do not reflect recent activity. The \$29.5 [million] amount [included in net plant] does not reflect an increase in net plant attributable to the restructuring reserve." The response to Data Request OC-1190 confirms that the correction to net plant recommended in the audit report is proper.

#### IV. Computer Equipment Inventory

The purpose of this section is to revise the description of a computer equipment physical inventory contained on page 10-17 of the Audit Report. The revision of the description does not impact any of the audit corrections recommended in the Audit Report.

Page 10-17 of the Audit Report discusses a physical inventory of computer equipment assigned to Pacific Bell's IT Department that was conducted in 1999. Pacific Bell recorded an accounting entry in December 1999 to reduce plant by \$98 million to reflect the inventory results. The Audit Report states that entry reflected "plant retirements for plant that could not be found in the physical

inventory." The response to Data Request OC-1223 provides the following description of the actual purpose of the entry.

[T]he computer inventory in the 2<sup>nd</sup> quarter of 1999 generated both retirements and reverse retirements....A number of the reverse retirements were discovered to have been in error, i.e., the assets should not have been added back onto the company books. [The December 1999] journal entry removed these reverse retirements and the depreciation associated with these assets.

The description of the December 1999 computer inventory accounting entry contained in the Audit Report was incorrect. The purpose of the entry was to correct a prior accounting error, not to reflect the retirement of plant which could not be located in the physical inventory.

# PACIFIC BELL SUPPLEMENTAL CHAPTER 10 - NET PLANT DISCOVERY OUTSTANDING AS OF DECEMBER 31, 2001

DR NO.	DESCRIPTION		SUBMITTED	RECEIVED	STATUS
968	SWITCH COMPONENTS EXPENSE POLICY	1	7/13/01	1/28/02	С
969	SWITCH COMPONENTS EXPENSE POLICY	2	7/13/01	1/28/02	С
1013	SAVR DEPRECIATION ADJUSTMENT POLICY	3	8/6/01	1/9/02	С
1190	JURISDICTIONAL ADJUSTMENT - RAO	4	9/25/01	2/1/02	NR
1192	JURISDICTIONAL ADJ DEPRECIATION RESERVE	5	9/25/01	1/31/02	С
1223	COMPUTER PLANT INVENTORY	6	10/8/01	1/25/02	С
1242	AFUDC - INVESTMENT BASE	7	10/19/01	1/10/02	С
1244	DEPRECIATION RESERVE ACCOUNT FLUCTUATIONS	8	10/19/01	1/21/02	С

STATUS: C = COMPLETE; NR = NONRESPONSIVE

### <u>Chapter 11 - Other Rate Base Items</u> <u>Supplemental Report</u>

This supplemental chapter addresses the data responses Pacific Bell provided after December 31, 2001 concerning cash working capital and rate base items other than net plant and accumulated deferred income taxes. The eight data requests outstanding as of December 31, 2001 are shown on Attachment S11-1. This supplemental chapter contains the following findings.

- C Cash working capital should be revised to reflect proper treatment of Pacific Bell Directory accounts receivable purchased by Pacific Bell. The revision reduces 1998 and 1999 intrastate regulated cash working capital by an average of \$32 million.
- C Cash working capital should be revised to reflect the proper expense lags for federal and state income taxes. The revision reduces audit period intrastate regulated cash working capital by an average of \$122 million.
- C Pacific Bell's revised intrastate regulated cash working capital averaged \$3 million per year during the audit period.
- C The prepaid pension costs included in rate base should be adjusted to reflect Overland's revised pension cost correction. The revision reduces audit period intrastate regulated rate base by an average of \$9 million.

#### I. Pacific Bell Directory - Purchased Accounts Receivable

This section describes a revision to cash working capital that reduces 1998 and 1999 rate base by an average of \$32 million per year.

Pacific Bell includes the charges of other telecommunications companies on Pacific Bell customer bills pursuant to contract billing agreements. Pacific Bell accounts for the contract billings as a purchase of accounts receivable. The billing to the end user is included in Pacific Bell's end-use accounts receivable and the remittance owed to the other telecommunications company is reflected as a liability in accounts payable. The contract billings are not included in Pacific Bell's revenues. Therefore, the accounts receivable used in Pacific Bell's revenue lag calculations must be reduced to be consistent with revenues. Pacific Bell deducts the contract billing accounts payable from the accounts receivable balances to adjust the accounts receivable to be consistent with revenues used in its revenue lag calculations.<sup>1</sup>

Pacific Bell performs contract billing for Pacific Bell Directory.<sup>2</sup> Pacific Bell's 1997 cash working capital calculations use accounts receivable and revenue amounts from its FR consolidated general ledger. The consolidating entries made in 1997 eliminated the contract billing accounts receivable and contract billing accounts payable. As a result, the 1997 balances used by Pacific Bell reflected only Pacific Bell Directory's accounts receivable and revenues for the contract billed amounts. That resulted in a proper matching of revenues and accounts receivable in 1997.

<sup>&</sup>lt;sup>1</sup> Audit Report page 11-11

<sup>&</sup>lt;sup>2</sup> OC-1084

Pacific Bell spun-off Pacific Bell Directory to Pacific Telesis in 1998. As a result, Pacific Bell Directory was not included in Pacific Bell's FR general ledger in 1998. In 1998 and 1999, the accounts receivable and revenues used in Pacific Bell's revenue lag calculations reflect the FR balances plus Pacific Bell Directory's accounts receivable and revenue balances. The revenues used in the 1998 and 1999 revenue lag calculations correctly reflected Pacific Bell Directory's revenues. However, the combined Pacific Bell and Directory accounts receivable balances reflected the contract billing accounts receivable twice: once as a Pacific Bell Directory receivable and again as a Pacific Bell contract billing accounts receivable. Pacific Bell should have deducted the Pacific Bell Directory contract billing accounts payable from the accounts receivable balances used in its revenue lag calculations, in the same manner as it deducted other contract billing accounts payable. However, Pacific Bell failed to make that deduction. As a result, the revenue lags used by Pacific Bell were overstated in 1998 and 1999.

Pacific Bell's response to Data Request OC-1278, received on January 22, 2002, provides the following explanation for why Pacific Bell did not deduct the Pacific Bell contract billing accounts payable from the accounts receivable used in its 1998 and 1999 revenue lag calculations.

Account 4010.142, accounts payable-purchase of receivables - Pacific Bell Directory (PBD), is not deducted from total accounts receivable in the determination of the revenue lags because the corresponding receivable, Account 1180.272, accounts receivable -purchase of receivables - PBD, is also not included...

Account 1180.272 is titled "Purchase of Accounts Receivable, <u>Unbilled Charges</u>, Pacific Bell Directory. Account 1180.272 only includes the unbilled portion of the contract billings performed for Pacific Bell Directory. The following table shows the average 1998 and 1999 balances in Accounts 1180.272 and 4010.142.

Table S11-1 Contract Billing - Pacific Bell Directory Unbilled Accounts Receivable and Contract Billing Accounts Payable (Dollars in Thousands)									
Source : OC-1027									
ACCT.	DESCRIPTION	1998 Av erage	1999 Av erage						
1180.272	A/R- CONTRACT BILL - UNBILLED	5,646	189						
4010.142	A/P CONTRACT BILL	(52,803)	(54,475)						
	NET TOTAL	(47, 157)	(54,286)						

The unbilled contract billing accounts receivable recorded in Account 1180.272 clearly represent only a small portion of the contract billing accounts receivable. Therefore, the exclusion of Account 1180.272 from Pacific Bell's revenue lag calculations does not remove most of the Pacific Bell contract billing accounts receivable from the revenue lag calculations. Therefore, an additional adjustment is needed to reduce accounts receivable.

<sup>&</sup>lt;sup>3</sup> Pacific Bell 1998 10-K report, page 26

<sup>&</sup>lt;sup>4</sup> Audit Report, Attachment 11-8

<sup>&</sup>lt;sup>5</sup> OC-1278

<sup>&</sup>lt;sup>6</sup> Pacific Bell Accounts Manual, January 1, 1998, page 1-7

C Cash working capital should be revised to reflect proper treatment of Pacific Bell Directory accounts receivable purchased by Pacific Bell. The revision reduces 1998 and 1999 intrastate regulated cash working capital by an average of \$32 million.

Pacific Bell added all of Pacific Bell Directory's accounts receivable to its FR basis accounts receivable in its 1998 and 1999 revenue lag calculations. The Pacific Bell Directory accounts receivable include all of Directory's accounts receivable, including contract billing receivables from Pacific Bell. Those same receivables are also included in the end-user accounts receivable balances reported on Pacific Bell's FR general ledger. Adding Directory's accounts receivable balances to the FR general ledger receivable balances double counts the contract billing accounts receivables. Therefore, the contract billing accounts receivable included in the FR general ledger balance must be eliminated to avoid double counting the receivables.

The required correction to Pacific Bell's revenue lag is calculated on Attachment S11-2. As can be seen on that attachment the correction reduces Pacific Bell's 1998 revenue lag by 1.75 days and Pacific Bell's 1999 revenue lag by 1.79 days.

#### II. Federal and State Income Tax Expense Lags

This section describes a revision to cash working capital that reduces rate base by an average of \$122 million per year.

The Audit Report accepted Pacific Bell's methodology for calculating federal and state income tax expense lags. However, page 11-26 of the Audit Report states:

Pacific Bell's actual 1998 federal income tax expense lag was 170 days. The corrected income tax lags [used in the Audit Report] are significantly shorter than the actual 1998 lag and may be understated. Overland recently requested actual income tax payment information for 1997 and 1999. The "corrected" income tax lags shown on Attachment 11-14 are subject to change based on the response to that request.

Pacific Bell provided actual federal and state income tax payment information for the 1997 and 1999 tax years in the response to Data Request OC-1275. Pacific Bell had previously provided 1998 data in the response to Data Request OC-1093. Pacific Bell's actual federal and state income tax payment lags are shown below.

Table S11-2 Pacific Bell Federal and State Income Tax Expense Lags (Number of Days)								
Source: OC-1093 and OC-1275  Year Federal State								
1997	610	84						
1998	169	96						
1999	186	210						

The federal income tax lags used in the Audit Report ranged from 74 to 87 days. The state income tax expense lags used in the Audit Report ranged from 72 to 88 days. Pacific Bell used federal and

<sup>&</sup>lt;sup>7</sup> Attachment 11-14

state income tax expense lags of 236 and 270 days respectively in its 1999 FCC cash working capital calculations.<sup>8</sup>

C Cash working capital should be revised to reflect the proper expense lags for federal and state income taxes. The revision reduces audit period intrastate regulated cash working capital by an average of \$122 million.

The actual payment data provided by Pacific Bell provides a basis for determining the federal and state income tax expense lags that is superior to the derived amounts used by Pacific Bell. Therefore, the expense lags should be adjusted to reflect the actual payment data.

The payment data reflects Pacific Bell consolidated operations. The 1997 data is distorted by the large income tax losses incurred by Pacific Bell Mobile systems. <sup>9</sup> Pacific Bell spun-off most of its subsidiaries to Pacific Telesis in 1998. As a result, the only subsidiary included in Pacific Bell's consolidated financial results in 1998 and 1999 was Pacific Bell Information Services. <sup>10</sup> Therefore, the 1998 and 1999 data provides a reasonable basis for determining Pacific Bell's federal and state income tax expense lags. The recommended correction uses the 1998 data as a proxy for reasonable 1997 results.

The correction to cash working capital resulting from the change in the the federal income tax expense lag is calculated below.

Table S11-3 Cash Working Capital Correction Federal Income Tax Expense Lag (Dollars in Thousands) Source: OC-1093, OC-1275, Attachments 11-14 and 11-20								
Description	1997	1998	1999					
Corrected Expense Lag	169.00	169.00	186.00					
Prior Expense Lag	87.45	73.55	75.78					
Change in Expense Lag	81.55	95.45	110.22					
Average Daily Expense Amount	710	1,359	1,082					
Cash Working Capital Impact	(57,901)	(129,717)	(119,258)					

The correction to cash working capital required to reflect the change in the state income tax lag is calculated below.

<sup>&</sup>lt;sup>8</sup> OC-1272

<sup>&</sup>lt;sup>9</sup> Audit Report page 11-9

<sup>&</sup>lt;sup>10</sup> Audit Report page 11-7

Table S11-4 Cash Working Capital Correction State Income Tax Expense Lag (Dollars in Thousands) Source: OC-1093, OC-1275, Attachments 11-14 and 11-20								
Description	1997	1998	1999					
Corrected Expense Lag	84.00	96.00	210.00					
Prior Expense Lag	88.32	72.38	71.87					
Change in Expense Lag	(4.32)	23.62	138.13					
Average Daily Expense Amount	178	374	363					
Cash Working Capital Impact	769	(8,834)	(50,141)					

Supplemental data request OCSUP 11, submitted on March 28, 2002, asked Pacific Bell to provide the amount of interest Pacific Bell had paid for the late payment of 1997, 1998 and 1999 federal and state income taxes. Pacific Bell declined to provide the requested information on the basis that the question was burdensome and oppressive.

#### III. Revised Cash Working Capital

C Pacific Bell's revised intrastate regulated cash working capital averaged \$3 million per year during the audit period.

Attachment S7-3 shows Pacific Bell's revised cash working capital requirements. The following table compares the revised cash working capital amounts to the amounts recommended in the Audit Report and the amounts claimed on Pacific Bell's IEMR reports.

Table S11-5 Revised Cash Working Capital Comparison to Audit Report and Pacific Bell Intrastate Regulated (Amounts in Thousands)								
Source: Attachments	11-20 and S7-2							
Description	1997	1998	1999					
Revised Amount	120,176	17,313	(129,498)					
Per Audit Report	176,660	189,946	80,743					
Per Pacific Bell	511,550	530,735	378,865					

The revised cash working capital amounts reflect: (1) the adjustments to operating expenses recommended in other supplemental chapters; and (2) the revenue lag and income tax expense lag revisions described in this supplemental chapter.

#### IV. Prepaid Pension Cost

Prepaid pension costs are properly included in rate base.<sup>11</sup> The Supplement to Chapter 7 contains the following finding.<sup>12</sup>

The pension correction recommended in the Audit Report should be revised to properly reflect prepaid pension balances in the aggregate cost method calculation of pension costs. The pension correction recommended in the Audit Report decreased recorded intrastate regulated pension cost by \$357 million. The revised correction reduces recorded intrastate regulated pension cost by \$325 million.

The revision to the pension correction requires a revision to the prepaid pension costs included in rate base. The corrected prepaid pension amounts are calculated below.

Table S11-6 Prepaid Pension Assets Reflecting Revised Pension Correction (Amounts in Thousands)									
Source: Attachment S7-2 and Audit Report page 11-29									
Description	1997	1998	1999						
Beginning Balance	0	105,280	214,054						
Revised Intrastate Reg. Accrual	105,280	108,774	110,496						
Ending Balance	105,280	214,054	324,550						
Average Balance	52,640	159,667	269,302						
Av erage Balance-Audit Report	52,640	165,118	290,787						
Impact of Revision	0	(5,451)	(21,485)						

<sup>&</sup>lt;sup>11</sup> Audit Report page 11-28

<sup>&</sup>lt;sup>12</sup> Supplemental Chapter 7, page S7-1

# PACIFIC BELL SUPPLEMENTAL CHAPTER 11 - OTHER RATE BASE ITEMS DISCOVERY OUTSTANDING AS OF DECEMBER 31, 2001

DR NO.	DESCRIPTION		SUBMITTED	RECEIVED	STATUS
1023	ASI PREPAYMENT	1	8/6/01	1/11/02	С
1072	DEFERRED COMPENSATED ABSENCES LAG	2	8/20/01	1/30/01	С
1075	FCC REVENUE LAGS -SUPPORT	3	8/20/01	2/1/02	С
1076	FCC EXPENSE LAGS - SUPPORT	4	8/20/01	1/21/02	С
1078	FCC TAX LAGS - SUPPORT	5	8/20/01	1/15/02	С
1086	PREPAID DIRECTORY EXPENSE LAG	6	8/20/01	1/14/02	С
1089	PAYROLL LAG - GROSS PAY BY CATEGORY	7	8/20/01	2/4/02	NR
1091	MEDICAL EXPENSE LAG - SUPPORT	8	8/20/01	1/28/02	С

STATUS: C= COMPLETE; NR = NONRESPONSIVE

# PACIFIC BELL REVENUE LAG CORRECTIONS WITH DIRECTORY CONTRACT BILLING ACCOUNTS PAYABLE DEDUCTED (DOLLAR AMOUNTS IN 000s)

		1997	1998	1999
ACCC	OUNTS RECEIVABLE			
	PER PACIFIC BELL	1,648,170	1,731,332	1,716,143
	LESS: DIRECTORY ISSUE BASIS	(408,901)	(386,868)	(443,474)
	LESS: AFFILIATE (A)	(66,391)	(66,191)	(69,112)
	LESS: DIDECTORY CONTRACT BILL A/D	0	(47.157)	(E4 20G)
	LESS: DIRECTORY CONTRACT BILL A/P	0	(47,157)	(54,286)
	TOTAL	1,172,878	1,231,116	1,149,271
	1017/2	1,112,010	1,201,110	.,,
REVE	NUE			
	PER PACIFIC BELL	9,904,336	10,489,077	11,336,819
	CORRECT 1998 REVENUE	0	181,532	0
	LESS: AFFILIATE REVENUE	(36,243)	(121,234)	(219,564)
	TOTAL	0.969.003	10 540 275	11 117 255
	TOTAL	9,868,093	10,549,375	11,117,255
AVFR	AGE DAILY REVENUE	27,036	28,902	30,458
				55,.55
LAG E	BEFORE JURISDICTIONAL FACTOR	43.38	42.60	37.73
JURIS	DICTIONAL FACTOR PER PACIFIC BELL	0.96131	0.96918	1.00541
INTR/	ASTATE REVENUE LAG	41.70	41.28	37.94
	NULL 1 4 0 DED 4 11DIE DEDODE	11 =0	40.00	
REVE	NUE LAG PER AUDIT REPORT	41.70	43.03	39.73
DIEEE	I ERENCE	0.00	(1.75)	(1.79)
DILLE	RENGE	0.00	(1.75)	(1.79)
AVER	AGE DAILY EXPENSE PER ATT. 11-20	17,779	17,752	17,926
		,	,. 02	,520
CASH	WORKING CAPITAL IMPACT	0	(31,016)	(32,145)

SOURCE: OC-66, OC-1017, OC-1027, AND ATTACHMENTS 11-6, 11-9 AND 11-10

NOTE: THIS ATTACHMENT REPLACES ATTACHMENT 11-11 IN THE AUDIT REPORT

NOTE (A): 1998 CHANGED FROM \$61,191 TO \$66,191 TO CORRECT ERROR IN AUDIT REPORT

## PACIFIC BELL REVISED CORRECTED CASH WORKING CAPITAL - SUPPLEMENTAL CHAPTER 11 (AMOUNTS IN 000s) YEAR 1997

	FR TOTAL	LESS: INTERSTATE	LESS: BELOW THE LINE	ADD DIRECTORY	IEMR RATEMAKING ADJUSTMENTS	RECLASSIFY DIRECTORY EXPENSE	RECLASSIFY SFAS 106 EXPENSE	RECLASSIFY SFAS 112 EXPENSE	RECLASSIFY DEFERRED COMP. ABS.	AUDIT ADJUSTMTS	REGULATED INTRASTATE	DAILY EXPENSE	EXPENSE LAG	REVENUE LAG	NET LAG	REGULATED INTRASTATE REQ
PERATIONS EXPENSE																
DIRECTORY EXPENSE	220,650	(30,405)	(30,562)		0	(159,682)				0		0		41.70	41.70	C
POSTAGE	56,671	(7,809)	(7,850)		0					0		112	5.40	41.70	36.30	4,079
OPERATING RENTS	167,820	(23,126)	(23,245)		0					0	,	333	12.20	41.70	29.50	9,816
PAYROLL	2,211,459	(304,738)	(306,312)		0					(34,354)	1,566,055	4,291	36.40	41.70	5.30	22,740
PENSION	(51,142)	7,047	7,084		0					(105,280)	(142,291)	(390)	15.87	41.70	25.83	(10,070
EMPLOYEE SAVINGS PLAN	57,133	(7,873)	(7,914)		0					0	41,347	113	12.95	41.70	28.75	3,257
GROUP LIFE INSURANCE	4,069	(561)	(564)		0					0		8	25.70	41.70	16.00	129
MEDICAL EXPENSE PLAN	357,414	(49,251)	(49,506)		55,030		(226,582)			0	87,105	239	79.18	41.70	(37.48)	(8,944
SFAS 106 ACCRUALS	0	0	0		0		226,582			(31,026)	195,556	536	0.00	41.70	41.70	22,342
DENTAL EXPENSE PLAN	18,614	(2,565)	(2,578)		0					0		37	60.83	41.70	(19.13)	(706
VISION CARE PLAN	4,368	(602)	(605)		0					0	-, -	9		41.70	2.16	19
WORKERS COMPENSATION	20,399	(2,811)	(2,825)		0			(14,763)		0	0	0		41.70	41.70	0
SFAS 112 ACCRUALS	0	0	0		0			52,087		(9,594)	42,493	116	0.00	41.70	41.70	4,855
MATERIAL FROM STORES	73	(10)	(10)		0					0		0		41.70	41.70	6
CPUC USER FEE	5,962	(822)	(826)		0					0		12	79.87	41.70	(38.17)	(451
DEFERRED COMPENSATED ABS.	7,483	(1,031)	(1,036)		0				(5,415)	0		0		41.70	41.70	0
FICA	158,185	(21,798)	(21,910)		0					0		314	18.89	41.70	22.81	7,154
FEDERAL UNEMPLOYMENT	2,238	(308)	(310)		0					0		4	(33.54)	41.70	75.24	334
STATE UNEMPLOYMENT	3,162	(436)	(438)		0					0	-,	6	( /	41.70	90.92	570
OTHER EXPENSES	3,555,148	(489,898)	(492,427)		(28,042)	159,682		(37,324)	5,415	(278,522)	2,394,032	6,559	43.12	41.70	(1.42)	(9,314
TOTAL	6,799,706	(936,996)	(941,835)	0	26,988	0	0	0	0	(458,776)	4,489,087	12,299				45,814
DEPRECIATION	2,140,595	(402,725)	(115,849)	0	(2,931)					(44,472)	1,574,618	4,314	0.00	41.70	41.70	179,895
OTHER INCOME AND EXPENSE	17,457	(2,049)	(12,463)	0	0					(15,396)	(12,451)	(34)	43.12	41.70	(1.42)	48
OTHER OPERATING TAXES																
PROPERTY TAXES	168,616	(35,099)	(2,842)	0	0					0	130,674	358	46.40	41.70	(4.70)	(1,683
OTHER TAXES	25,137	(5,233)	(424)	0	0					(777)	18,704	51	82.70	41.70	(41.00)	(2,101
		(0,000)	(:=:/							(,	,		5 5		(11122)	(=,::::
TOTAL	193,753	(40,332)	(3,266)	0	0	0	0	0	0	(777)	149,378	409				(3,784
NCOME TAXES -FEDERAL																
CURRENT	77,312	(85,213)	217,728	0	7,369					43,309	260,505	714	169.00	41.70	(127.30)	(90,856
DEFERRED	(74,456)	3,548	(47,811)	0						106.011	17,229	47	0.00	41.70	41.70	1,968
INVESTMENT TAX CREDIT	(48,283)	8,310	(11,511)	0	- 7					0	(39,973)	(110)	0.00	41.70	41.70	(4,567
TOTAL	(45,427)	(73,355)	169,917	0	37,306	0	0	0	0	149,320	237,761	651	0.00			(93,454
	` `	,														
NCOME TAXES - STATE																
CURRENT	11,371	(20,364)	60,370	0	1,819					12,104	65,300	179	84.00	41.70	(42.30)	(7,568
DEFERRED	(5,015)	(302)	(13,246)	0	7,943					3,827	(6,793)	(19)	0.00	41.70	41.70	(776
TOTAL	6,356	(20,666)	47,124	0	9,762	0	0	0	0	15,931	58,507	160				(8,344
		(1.480.455	(0.00 0			_		_	_	(a=1 :- ··	0.400.6					400 :
OTAL EXPENSES	9,112,440	(1,476,123)	(856,372)	0	71,125	0	0	0	0	(354,171)	6,496,899	17,800				120,176
NTRASTATE REGULATED PER PACIFIC	BELL															511,550

Page 2 of 3

## PACIFIC BELL REVISED CORRECTED CASH WORKING CAPITAL -SUPPLEMENTAL CHAPTER 11 (AMOUNTS IN 000s) YEAR 1998

PATE				1				YEAR 1			1	1		1			
PRINT   PRIN						IEMR	RECLASSIFY	RECLASSIFY	RECLASSIFY	RECLASSIFY							REGULATED
PREMATIONS DEPOSES   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024   0   19,024		ED TOTAL															
DISCLOTON FORMS	OPERATIONS EXPENSE	FRIOIAL	INTERSTATE	THE LINE	DIRECTORT	ADJUSTMENTS	EXPENSE	EXPENSE	EAFENSE	COWIF. ABS.	ADJUSTWITS	INTRASTATE	EXPENSE	LAG	LAG	LAG	REQ
CONTAINE   63.370   (11.984)   (6.681)   0   0   4.685   188   5.00   41.98   35.08   4.50		0	0	0	199 254	0	(199 254)				0	0	0		41 28	41 28	0
OPERATOR SERTIS   106.075   03.797   (15.398)   5   0   0   15.056   339   12.20   41.28   20.00   20.00		-			100,204		(100,204)										
APPROLIC   2787974 (wig 238)																	
SRYCHE PRISON   64 (169)   6,200   4,405   0   0   0   0   0   0   0   0   0				( - , ,													
BIANDONE SAVANDE PLAN   128   128   128   128   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335   335												,, ,, ,,					
RROUGH (PER PRIMANCE   2,580   4478   12,98   0   0   0   1,977   5   5,70   41,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98   15,98											, , ,						
MEDICAL EXPENSES FLAN   343,298   (60.308) (16.00)   40.0002   600,0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.0000   0   60.00000   0   60.00000   0   60.00000   0   60.00000   0   60.00000   0   60.000000   0   60.00000   0   60.00000   0   60.000000		. ,	( ,,	(-, -,													
SPAS DISACCICIAL 0 0 0 0 0 50,800 0 550,800 0 157,000 4420 4420 4120 17.76								(550,000)			, ,						
DENTAL EXPENSE PLAN   23.013   (42.07)   (2.125)   0   0   0   0   0   0   0   0   0																	
SISTING AGREEPLAN   5.002   (934)   (467)   0   0   7,7890   0   0   0   41.28   17.4   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.5   17.								550,690									
MORERS COMPENSATION   9.912   (1,829)   (915)   0   (7,196)   0   0   0   41.28   41.28   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.28)   (18.		-,									, ,					( /	
SPAS 112 ACCRUME  0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0														39.54			
MATERIAL FROM STORES 27 (5) (2) 0 0 0 0 0 0 0 0 4128 4128 4129 (2) 0 0 0 0 0 0 0 0 4128 4128 4129 (2) 0 0 0 0 0 0 0 0 0 14128 4129 (3) 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0																	
CPUC USER REE   6.472   (1.984)   (599)   0		-							(1,617)			( /- /					
DEFERRED COMPENSATE ABS																	2
FICA 165,44 (30,077) (15,349) 0 1 122,18 329 18,89 41,28 22,39 7,37. FICA PEDERAL LIMENPLOYMENT 2,280 (66) (223) 0 1 1,221,18 5 (3,354) 41,28 7,48.2 37. FICA STATE LIMENPLOYMENT 2,280 (58) (264) 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0											·			79.87			
FEDERAL UNEMPLOYMENT 2,528 4469 (233) 0 0 0 0 1,328 5 (33.54) 41.28 74.82 737.  STATE UNEMPLOYMENT 2,580 (324) (24.590) 270,288 139,307 199,254 8,785 6,411 (160,789) 2,140,743 5,565 44.28 41.28 (15.52) (8.911 10714.  STATE UNEMPLOYMENT 2,580 (32.31) (24.590) 270,288 139,307 199,254 8,785 6,411 (160,789) 2,140,743 5,565 44.28 41.28 (15.52) (8.911 10714.  STATE UNEMPLOYMENT 2,580 (48.83,317) (41.120) 16,051 (12.899) 0 0 0 0 0 (863,389) 4,190,378 11,480 0 0 4.128 41.28 183,221 10714.  EPRECIATION 2,122,388 (438,317) (41.120) 16,051 (12.899) 0 0 0 0 0 (7.7860) 1,220,118 44.39 0 0.00 41.28 41.28 183,221 10714.  THER INCOME AND EXPENSE 746 (230) (4) (6,315) 0 0 0 0 7,7860 (22) 42.80 41.28 (15.52) 33.  THER PROPERTY TAXES 172,003 (41.139) (3,219) 882 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0 0										(5,411)							
STATE NEMPEROYMENT    2,800   (528)   (224)   0   0   0   0   0   0   0   0   0											0		329				7,374
OTHER EXPENSES   2,321,138   (428,323)   (214,309)   270,288   139,307   199,254   8,785   5,411   (160,788)   2,40,743   5,886   4,280   41,28   (1,52)   (8,91)				(/							0		5	( , , , ,			375
TOTAL 5.316,973 (981,148) (490,913) 489,522 539,309 0 0 0 0 0 683,388 4.190,375 11,480 4.128 41.28 183,222 4.128 41.28 183,222 4.128 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28 41.28	STATE UNEMPLOYMENT	2,860	(528)	(264)		0					0	2,068	6	(49.22)	41.28	90.50	513
PRECIATION 2, 122,368 (438,317) (41,120) 16,051 (12,899)	OTHER EXPENSES	2,321,138	(428,323)	(214,309)	270,268	139,307	199,254		8,785	5,411	(160,788)	2,140,743	5,865	42.80	41.28	(1.52)	(8,915)
THER INCOME AND EXPENSE 745 (290) (4) (8,315) 0 0 0 (7,864) (22) 42,80 41,28 (1,52) 33  THER OPERATING TAXES	TOTAL	5,316,973	(981,148)	(490,913)	469,522	539,309	0	0	0	0	(663,368)	4,190,375	11,480				45,619
THER INCOME AND EXPENSE 745 (290) (4) (8,315) 0 0 0 (7,864) (22) 42,80 41,28 (1,52) 33  THER OPERATING TAXES																	
THER OPERATING TAXES  PROPERTY TAXES  172,303 (41,138) (3,218) 892 0 0 128,839 353 46,40 41,28 (5,12) (1,807) OTHER TAXES  10,804 (2,579) (202) 2,124 0 0 (771) 9,376 26 82,70 41,28 (41,42) (1,508)  TOTAL 183,107 (43,717) (3,420) 3,016 0 0 0 0 0 0 (771) 138,215 379 0 (2,87)  COME TAXES -FEDERAL  CURRENT 374,945 (144,530) 10,216 199,862 2,638	DEPRECIATION	2,122,368	(436,317)	(41,120)	16,051	(12,899)					(27,968)	1,620,115	4,439	0.00	41.28	41.28	183,228
THER OPERATING TAXES  PROPERTY TAXES  172,303 (41,138) (3,218) 892 0 0 128,839 353 46,40 41,28 (5,12) (1,807) OTHER TAXES  10,804 (2,579) (202) 2,124 0 0 (771) 9,376 26 82,70 41,28 (41,42) (1,508)  TOTAL 183,107 (43,717) (3,420) 3,016 0 0 0 0 0 0 (771) 138,215 379 0 (2,87)  COME TAXES -FEDERAL  CURRENT 374,945 (144,530) 10,216 199,862 2,638																	
PRODERTY TAXES   172,303   (41,138)   (32,18)   892   0       0   128,839   353   46,40   41,28   (51,21   1,80)	OTHER INCOME AND EXPENSE	745	(290)	(4)	(8,315)	0					0	(7,864)	(22)	42.80	41.28	(1.52)	33
PRODERTY TAXES   172,303   (41,138)   (32,18)   892   0       0   128,839   353   46,40   41,28   (51,21   1,80)			, ,	` '	, , ,								` ′			, ,	
OTHER TAXES 10,804 (2,579) (202) 2,124 0 (1,066 TOTAL 183,107 (43,717) (3,420) 3,016 0 0 0 0 0 0 (771) 138,215 379 (2,871  COME TAXES -FEDERAL  CURRENT 374,945 (144,530) 10,216 199,882 2,638 (134,360) (15,985) (88,140) (241) 0.00 41.28 (127,72) (175,286) (188,140) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,882 4,128) (199,	OTHER OPERATING TAXES																
OTHER TAXES   10,804   (2,579)   (202)   2,124   0	PROPERTY TAXES	172,303	(41,138)	(3,218)	892	0					0	128,839	353	46.40	41.28	(5.12)	(1,807)
TOTAL 163,107 (43,717) (3,420) 3,016 0 0 0 0 0 0 (771) 138,215 379	OTHER TAXES	10.804	(2.579)		2.124	0					(771)	9.376		82.70	41.28	(41.42)	(1,064)
NCOME TAXES -FEDERAL  CURRENT 374,945 (144,530) 10,216 199,862 2.638 57,797 500,928 1,372 169,00 41,28 (127,72) (175,284)  DEFERRED 81,674 (20,909) (7,541) 8,981 (134,360) 50 (15,985) (88,140) (241) 0.00 41,28 41,28 (9,986)  INVESTMENT TAX CREDIT (38,590) 7,197 3,563 0 0 0 0 0 0 (27,830) (76) 0.00 41,28 41,28 (9,986)  TOTAL 418,029 (158,242) 6,238 208,843 (131,722) 0 0 0 0 0 41,812 384,958 1,055  NCOME TAXES - STATE  CURRENT 100,690 (39,177) 9,650 50,078 731 516,013 137,985 378 96,00 41,28 (54,72) (20,686)  DEFERRED 46,231 (7,876) (7,876) 7,958 (37,225) 517  TOTAL 146,921 (47,053) 1,774 58,036 (36,494) 0 0 0 0 18,249 141,433 387  OTAL EXPENSES 8,188,143 (1,666,767) (527,445) 747,153 358,194 0 0 0 0 0 (632,046) 6,467,232 17,718 517,315  NTRASTATE REGULATED PER PACIFIC BELL 5530,735			( ) /	/	,						,	.,				,	
NCOME TAXES -FEDERAL  CURRENT 374,945 (144,530) 10,216 199,862 2.638 57,797 500,928 1,372 169,00 41,28 (127,72) (175,284)  DEFERRED 81,674 (20,909) (7,541) 8,981 (134,360) 50 (15,985) (88,140) (241) 0.00 41,28 41,28 (9,986)  INVESTMENT TAX CREDIT (38,590) 7,197 3,563 0 0 0 0 0 0 (27,830) (76) 0.00 41,28 41,28 (9,986)  TOTAL 418,029 (158,242) 6,238 208,843 (131,722) 0 0 0 0 0 41,812 384,958 1,055  NCOME TAXES - STATE  CURRENT 100,690 (39,177) 9,650 50,078 731 516,013 137,985 378 96,00 41,28 (54,72) (20,686)  DEFERRED 46,231 (7,876) (7,876) 7,958 (37,225) 517  TOTAL 146,921 (47,053) 1,774 58,036 (36,494) 0 0 0 0 18,249 141,433 387  OTAL EXPENSES 8,188,143 (1,666,767) (527,445) 747,153 358,194 0 0 0 0 0 (632,046) 6,467,232 17,718 517,315  NTRASTATE REGULATED PER PACIFIC BELL 5530,735	TOTAL	183.107	(43.717)	(3.420)	3.016	0	0	0	0	0	(771)	138.215	379				(2.871)
CURRENT   374,945   (144,530)   10,216   199,862   2,638           57,797     500,928   1,372   169,00   41,28   (127.72)   (175,284   18,187   (20,909)   (7,541)   8,981   (134,360)		,	(10,111)	(0,120)		-	-	-	-	-	()	,					(=,011)
CURRENT   374,945   (144,530)   10,216   199,862   2,638           57,797     500,928   1,372   169,00   41,28   (127.72)   (175,284   18,187   (20,909)   (7,541)   8,981   (134,360)	INCOME TAXES FEDERAL																
DEFERRED   81,674   (20,909)   (7,541)   8,981   (134,360)   (15,985)   (88,140)   (241)   0.00   41.28   41.28   (9,966   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   104,000   1		374 945	(144 530)	10.216	199 862	2 638					57 797	500 928	1 372	169.00	41 28	(127 72)	(175 284)
INVESTMENT TAX CREDIT   (38,590)   7,197   3,563   0   0   0   0   0   0   (27,830)   (76)   0.00   41.28   41.28   (3,147)			, , , , , , ,														
TOTAL 418,029 (158,242) 6,238 208,843 (131,722) 0 0 0 0 0 41,812 384,958 1,055 (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,395) (188,39											(10,000)						
COME TAXES - STATE					· ·	Ů	0	0	0	0	41 812		( - /	0.00	41.20	71.20	
CURRENT 100,690 (39,177) 9,650 50,078 731 16,013 137,985 378 96.00 41.28 (54,72) (20,686   DEFERRED 46,231 (7,876) (7,876) 7,958 (37,225) 12,236 3,448 9 0.00 41.28 41.28 390   TOTAL 146,921 (47,053) 1,774 58,036 (36,494) 0 0 0 0 18,249 141,433 387    OTAL EXPENSES 8,188,143 (1,666,767) (527,445) 747,153 358,194 0 0 0 0 0 (632,046) 6,467,232 17,718 17,718 17,313    UTRASTATE REGULATED PER PACIFIC BELL 50,078    TOTAL STRASTATE REGULATED PER PACIFIC BELL 50,078    TOTAL STRANDARD STRASTATED PER PACIFIC BELL 50,078    TOTAL STRANDARD STRANDARD STRASTATED PER PACIFIC BELL 50,078    TOTAL STRANDARD STRANDARD STRA	TOTAL	410,020	(100,242)	0,200	200,040	(101,722)		Ů			41,012	004,000	1,000				(100,000
CURRENT 100,690 (39,177) 9,650 50,078 731 16,013 137,985 378 96.00 41.28 (54,72) (20,686   DEFERRED 46,231 (7,876) (7,876) 7,958 (37,225) 12,236 3,448 9 0.00 41.28 41.28 390   TOTAL 146,921 (47,053) 1,774 58,036 (36,494) 0 0 0 0 18,249 141,433 387    OTAL EXPENSES 8,188,143 (1,666,767) (527,445) 747,153 358,194 0 0 0 0 0 (632,046) 6,467,232 17,718 17,718 17,313    UTRASTATE REGULATED PER PACIFIC BELL 50,078    TOTAL STRASTATE REGULATED PER PACIFIC BELL 50,078    TOTAL STRANDARD STRASTATED PER PACIFIC BELL 50,078    TOTAL STRANDARD STRANDARD STRASTATED PER PACIFIC BELL 50,078    TOTAL STRANDARD STRANDARD STRA	INCOME TAYES STATE																-
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NTRASTATE REGULATED PER PACIFIC BELL 530,738	TOTAL	140,921	(47,053)	1,774	56,036	(30,494)	U	0	U	U	10,249	141,433	307				(20,297)
NTRASTATE REGULATED PER PACIFIC BELL 530,738	TOTAL EXPENSES	8 188 143	(1 666 767)	(527 445)	747 153	358 104	0	0	0	0	(632 046)	6 467 232	17 71Ω				17 212
			(1,000,707)	(321,443)	141,100	330,194	0	U	U	0	(032,040)	0,401,232	17,710				
LEEDELUG	INTRASTATE REGULATED PER PACIFIC	CBELL															530,735
	DIFFERENCE					<u> </u>											(513,422

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## PACIFIC BELL REVISED CORRECTED CASH WORKING CAPITAL - SUPPLEMENTAL CHAPTER 11 (AMOUNTS IN 000s) YEAR 1999

1					1		YEAR 19			1	1			1		
					IEMR	RECLASSIFY	RECLASSIFY	RECLASSIFY	RECLASSIFY							REGULATED
	FR TOTAL	LESS: INTERSTATE	LESS: BELOW THE LINE	ADD DIRECTORY	RATEMAKING ADJUSTMENTS	DIRECTORY EXPENSE	SFAS 106 EXPENSE	SFAS 112 EXPENSE	DEFERRED COMP. ABS.	AUDIT ADJUSTMTS	REGULATED	DAILY EXPENSE	EXPENSE LAG	REVENUE LAG	NET LAG	INTRASTATE REQ
OPERATIONS EXPENSE																
DIRECTORY EXPENSE				46,730	0	(46,730)				0	0	0		37.94	37.94	0
POSTAGE	66,578	(11,081)	(8,790)		0					0	46,706	128	5.40	37.94	32.54	4,164
OPERATING RENTS	111,975	(18,637)	(14,784)		0					0	78,554	215	12.20	37.94	25.74	5,540
PAYROLL	2,201,842	(366,474)	(290,715)		0					(35,061)	1,509,591	4,136	41.81	37.94	(3.87)	(16,006
SERVICE PENSION	(63,872)	10,631	8,433		0					(179,245)		(614)	15.87	37.94	22.07	(13,548
EMPLOYEE SAVINGS PLAN	66.609	(11,086)	(8,795)		0					0	46,728	128	12.95	37.94	24.99	3,199
GROUP LIFE INSURANCE	1,065	(177)	(141)		0					0	747	2	25.70	37.94	12.24	25
MEDICAL EXPENSE PLAN	377,308	(62,799)	(49,817)		0		(168.967)			0	95.725	262	79.18	37.94	(41.24	(10,816
SFAS 106 ACCRUALS	0	0	0		0		168,967			(102,783)		181	0.00	37.94	37.94	6,880
DENTAL EXPENSE PLAN	23,304	(3,879)	(3,077)		0		,			0		45	60.83	37.94	(22.89	(1,025
VISION CARE PLAN	4,598	(765)	(607)		0					0		9		37.94	(1.60	(14
WORKERS COMPENSATION	46,147	(7,681)	(6,093)		0			(32,373)		0	-, -	0		37.94	37.94	0
SFAS 112 ACCRUALS	0	(7,001)	(0,000)		0			33.487		0		92		37.94	37.94	3,481
MATERIAL FROM STORES	49	(8)			0			55,451		0		0		37.94	37.94	4
CPUC USER FEE	6,333	(1,054)	(836)		0					0		12	79.87	37.94	(41.93)	(510
DEFERRED COMPENSATED ABS.	7,483	(1,054)	(988)		0				(5,250)	0	.,	0		37.94	37.94	(510)
FICA		,			0				(5,250)	0		344		37.94		
FEDERAL UNEMPLOYMENT	178,764 2.295	(29,753)	(23,603)		0					0		344	18.89 (33.54)	37.94	19.05 71.48	6,545 315
		( /	(303)		0					0		4	(,			
STATE UNEMPLOYMENT	2,241	(373)	(296)	444.050	U	10.700		(4.444)	5.050		.,		(49.22)	37.94	87.16	375
OTHER EXPENSES	3,003,639	(499,925)	(396,579)	444,359	141,306	46,730	_	(1,114)	5,250	(151,521)	2,592,145	7,102	43.18	37.94	(5.24)	(37,213
TOTAL	6,036,358	(1,004,691)	(796,997)	491,089	141,306	0	0	0	0	(468,610)	4,398,455	12,051				(48,604
DEPRECIATION	2,437,805	(413,707)	(43,644)	16,737	(777)					(619,920)	1,376,494	3,771	0.00	37.94	37.94	143,080
OTHER INCOME AND EXPENSE	(7,356)	(1,883)	474	1,077	0					0	(7,688)	(21)	43.18	37.94	(5.24)	110
OTHER OPERATING TAXES																
PROPERTY TAXES	170,258	(52,889)	(3,456)	1,274	0					0	115,187	316	46.40	37.94	(8.46)	(2,670
OTHER TAXES	6,917	(2,149)	(140)	52	0					(4,928)	(248)	(1)	82.70	37.94	(44.76)	30
TOTAL	177,175	(55,038)	(3,596)	1,326	0	0	0	0	0	(4,928)	114,939	315				(2,639
INCOME TAXES -FEDERAL																
CURRENT	326,303	(199,897)	56,866	190,609	3,928					23,481	401,290	1,099	186.00	37.94	(148.06)	(162,781
DEFERRED	(98,602)	(33,497)	13,039	45,526	(10,176)					105,501	21,791	60	0.00	37.94	37.94	2,265
INVESTMENT TAX CREDIT	(32,590)	6,078	4,303		0					0	(22,209)	(61)	0.00	37.94	37.94	(2,309
TOTAL	195,111	(227,316)	74,208	236,135	(6,248)	0	0	0	0	128,982	400,872	1,098				(162,824
INCOME TAXES - STATE																
CURRENT	112,993	(61,600)	18,449	54,489	1,089					8,723	134,143	368	210.00	37.94	(172.06	(63,235
DEFERRED	(16,240)	(4,041)	2,144	10,944	(2,847)					54,425	44,385	122	0.00	37.94	37.94	4,614
TOTAL	96,753	(65,641)	20,593	65,433	(1,758)	0	0	0	0	63,148	178,528	489				(58,621
TOTAL EXPENSES	8,935,846	(1,768,276)	(748,962)	811,797	132,523	0	0	0	0	(901,328)	6,461,600	17,703	_			(129,498
		,	· ·													
INTRASTATE REGULATED PER PACIFIC	BELL															378,865
																,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,
DIFFERENCE																(508,363

## Chapter 12 - Affiliate Transactions Overview Supplemental Report

This supplemental chapter addresses the data responses Pacific Bell provided to Overland after December 31, 2001 concerning the use of the telephone company's customer database by affiliates. The original audit report issued in February, 2002 did not include this issue because relevant data responses were not received in time to be incorporated into the report.

During the audit period SBC began transferring Pacific Bell's customer service, marketing and sales functions to SBC Operations, a corporate shared services affiliate. Along with the functions, SBC transferred access to Pacific Bell's customer database to SBC Operations. The findings in this chapter are listed below.

- Electronic access to Pacific Bell's customer database was effectively transferred to SBC Operations during the audit period. Pacific Bell has not been compensated for the transfer.
- During and since the audit period SBC Operations used Pacific Bell's customer database to provide telemarketing services on behalf of affiliates. The affiliates did not pay Pacific Bell for the customer database used on their behalf.
- During the audit period, certain affiliates receiving sales referrals from Pacific Bell and SBC Operations paid a referral fee. The fee was calculated as 13 percent of the first month's revenues from the services sold through referral. The primary affiliates paying sales referral fees during the audit period were Pacific Bell Information Systems (PBIS), Pacific Bell Internet and, to a much smaller extent, Pacific Bell Mobile Systems. Based on information provided by Pacific Bell, it appears that sales referral fees totaled approximately \$7.8 million in 1999.<sup>1</sup>
- Since the end of the audit period, the number of affiliates with the potential to benefit
  from access to Pacific Bell's customer database has increased. Among the additional
  affiliates that may benefit from Pacific Bell's customer database are SBC's long distance
  affiliate, Southwestern Bell Communications, SBC's "advanced services" affiliate, SBC
  Advanced Solutions, Prodigy Communications, an internet services provider now owned
  by SBC, and SBC Global Services.
- SBC does not apply a consistent approach to recognizing and charging for intercompany transfers of intangible assets. For example, in 2000 SBC began charging
  Pacific Bell more than \$400 million annually for "use of the corporate name."<sup>2</sup> At the
  same time, Pacific Bell does not charge SBC or its affiliates for their use of Pacific Bell's
  customer database, even though the value affiliates derive from the customer database
  seems much clearer than the value Pacific Bell derives from the name "SBC".

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<sup>&</sup>lt;sup>1</sup> Based on analysis of information provided in response to Data Request OC-166. We do not have sufficient data to calculate sales referral fees for 1997 and 1998, but affiliate transaction data provided in Pacific Bell's annual report to the CPUC suggests that similar sales referral fee amounts were billed in these years.

<sup>&</sup>lt;sup>2</sup> Pacific Bell 2000 financial statements, note 6, related party transactions.

#### I. Regulated Customer Data Used to Provide Marketing Services to Affiliates

#### A. <u>Data Responses</u>

On June 18, 2001, we requested descriptions of Pacific Bell's policies for supplying customer telephone numbers and related customer record data (name, address and payment history) to affiliates. We received responses to these requests on January 31, 2002 (227 days after the requests were issued). Among the responses, Pacific Bell indicated that SBC Operations' call center marketing groups (which during the audit period provided centralized marketing services to Pacific Bell and its affiliates) received Pacific Bell's customer data but did not compensate Pacific Bell for it<sup>3</sup>.

In addition to SBC Operations, Pacific Bell used its customer database to provide "marketing services" to affiliates. Pacific Bell indicated that the benefiting affiliates did not compensate Pacific Bell for the customer data over and above the fully distributed cost of the customer service labor involved in providing the marketing services.<sup>4</sup>

Assuming that the revenue from providing customer database access might be bundled with the "marketing services" labor, we requested a breakout of the revenue associated with the provision of the customer database. Pacific Bell responded as follows:

The marketing services FDC labor cost is developed using a component for support assets which reflects, among other things, the use of the telco databases and records in providing services to affiliates. . . The portion of the support assets component specifically attributable to the use of customer information is not separately tracked.<sup>5</sup>

On March 20, 2002, we issued several data requests to follow up on the information provided at the end of January. We asked whether the shared services entities (SBC Operations, SBC Services and others) used their access to Pacific Bell's customer database for the purpose of marketing services to non-regulated affiliates. On May 27, 2002, Pacific Bell responded as follows:

Yes, SBC Operations provides telemarketing support to Pacific Bell and its affiliates. In providing support to Pacific Bell and affiliates, SBC Operations only accesses records for customers that are part of the joint marketing customer list provided by Pacific Bell. All requirements for access of CPNI are followed.<sup>6</sup>

<sup>&</sup>lt;sup>3</sup>Response to Data Request OC 840-1 and 840-3.

<sup>&</sup>lt;sup>4</sup> Response to Data Request OC 845-1 and 845-2. However, while they do not pay for customer data, affiliates pay Pacific Bell a fee for sales referrals. Although the support provided by Pacific Bell are spotty and difficult to interpret, it suggests that the referral fee generated approximately \$8 million annually in inter-company revenue for Pacific Bell during the audit period.

<sup>&</sup>lt;sup>5</sup> Response to Data Request OC-845-5.

<sup>&</sup>lt;sup>6</sup> Response to Data Request OCSUP 13 (a).

Pacific Bell would not answer the question as it pertained to shared services affiliates other than SBC Operations (e.g. SBC Services).

We asked for supporting documentation of compensation paid by affiliates for customer data used by SBC Operations to conduct marketing on their behalf. Pacific Bell responded as follows:

Under the terms and conditions of the joint marketing agreements between Pacific Bell and its affiliates, SBC Operations works as an agent for Pacific Bell. Pacific Bell does not directly bill the affiliate for the access to the customer data, but affiliates receiving services from a shared services affiliate do pay an allocated share of the shared services affiliate's costs.<sup>7</sup>

The payment for "an allocated shared of the shared services affiliate's cost" is compensation for the fully distributed cost of labor provided by SBC Operations. It is not compensation for the use of Pacific Bell's customer records or access to the customer database. As with the previous data request, Pacific Bell would not answer the request as it applied to SBC Services or other shared services affiliates.

We also asked whether the shared services affiliates used Pacific Bell's customer data to perform marketing for Pacific Bell Information Services (PBIS) and, if so, whether PBIS paid the 13 percent sales referral fee when Pacific Bell's customer list was used to provide such services. Pacific Bell responded as follows:

Yes, during the 1997 to 1999 audit period and since the end of the audit period, the shared services affiliates did access Pacific Bell's customer data for the purpose of marketing services on behalf of Pacific Bell Information Services (PBIS). Yes, PBIS paid the referral fee.<sup>9</sup>

#### B. <u>Commission Policy</u>

Various CPUC tariffs and FCC orders cover the provision of customer data to affiliates and third parties. The Commission adopted a set of affiliate transaction rules for electric and gas utilities that included specific requirements restricting joint utility and affiliate marketing and for the provision of customer information to affiliates. However, we are not aware of any Commission policy directly addressing the transfer of Pacific Bell's customer records database

<sup>&</sup>lt;sup>7</sup> Response to Data Request OC-13 (b)

<sup>&</sup>lt;sup>8</sup> In Decision 87-12-067, PBIS was required to pay a 13 percent of sales revenue fee to Pacific Bell when Pacific Bell referred its customers to PBIS.

<sup>&</sup>lt;sup>9</sup> Response to Data Request OC-13 (c)

<sup>&</sup>lt;sup>10</sup> These are listed in response to OC-839-1, and include CPUC "Rule 34" and "Rule 35" tariff schedules A2.1.34 and A2.1.35, Billing and Collection Services Tariff 175-T, Directory Services Publishing Rights tariff A.5.7.4, Directory Assistance tariff schedule D5.1, and FCC orders in Dockets 96-115 and 99-273.

See Decision 97-12-088, Opinion Adopting Standards of Conduct Governing Relationships Between Utilities And Their Affiliates, Appendix A – Affiliate Transactions Rules. Customer and joint marketing issues are addressed specifically in Sections III-C – Nondiscrimination, Business Development and Customer Relations; IV-A & B –

to an affiliate or electronic access to the customer database by an affiliate. The most obvious benefit provided by access to Pacific Bell's customer database is sales leads. In addition to customer names, addresses and phone numbers (which can also be obtained by non-affiliates by purchasing directory information), the customer database contains detailed historical information concerning customer telecommunications services and credit.

Although it has not directly addressed the transfer of the customer database to affiliates, the Commission has addressed the provision of sales referrals by Pacific Bell to affiliates. Pacific Bell's customer services and sales force have provided sales referrals to affiliates for a number of years. In Decision 87-12-067, the Commission adopted a 13 percent of sales fee for sales referrals provided by Pacific Bell to "PacTel affiliates". The Commission stated:

The 13 percent referral fee recommended by the auditors as an adjunct to current transfer pricing of referrals represents a realistic measure of an approximation of the market value of referrals from the regulated utility to the PacTel affiliates, in the absence of an affirmative showing by the opposing parties supporting their allegations of flaws in the methodology underlying the recommendation. The fee is premised on 13 percent of sales revenues resulting from Pacific Bell referrals.<sup>13</sup>

The Commission's findings that the sales referral fee was to be "an adjunct to current transfer pricing" and "an approximation of . . . market value" are important because they indicate the Commission's intent that fees for sales referrals should be market-based and should be charged *in addition to* the fully distributed cost of the telephone company sales labor employed to make the referral.

In 1992, the Commission was more specific concerning the calculation of the referral fee as it applied to PBIS. In Decision 92-07-072 the Commission stated:

D.87-12-067 requires an affiliate to pay Pacific . . . a 13% premium payable when a sale results from a customer referral by the utility <sup>14</sup> . . . Pacific should implement the 13% referral fee imposed by Ordering Paragraph 25 of D.98-12-0676 by having PBIS pay 13% of the first month's revenue, including nonrecurring charges from new as well as subsequent additions to existing accounts, that results from a successful referral by Pacific to PBIS. <sup>15</sup> Pacific's sales force may market PBIS's services so long as there is a properly executed tracking mechanism in place. <sup>16</sup>

Disclosure and Information, Customer Information and Non-Customer Specific Non-Public Information; and V-E Separation, Corporate Support.

<sup>&</sup>lt;sup>12</sup> There has not been a major affiliate transaction proceeding in California since Pacific Bell created shared services affiliates to conduct joint marketing and customer service at the corporate level.

<sup>&</sup>lt;sup>13</sup> D.87-12-067, Finding of Fact 123

<sup>&</sup>lt;sup>14</sup> D.92-07-072, Finding of Fact 12.

<sup>&</sup>lt;sup>15</sup> Ibid., Finding of Fact 39.

<sup>&</sup>lt;sup>16</sup> Ibid., Finding of Fact 40.

#### C. <u>Inconsistency in Recognizing Inter-Company Transfers of Intangible Assets</u>

SBC and Pacific Bell have not been consistent in their recognition of inter-company transfers of intangible assets. While Pacific Bell allows SBC to use its customer database without compensation, SBC charges Pacific Bell a significant amount for the name "SBC". Since 2000, SBC has charged Pacific Bell more than \$400 million annually for the use of the name "SBC". The royalty for the use of the name is recorded as "other expense" on the external (SEC) books.<sup>17</sup>

The value to affiliates of the *uncompensated* intangible (Pacific Bell's customer database) is reasonably evident: the data is useful in developing corporate and affiliate marketing strategies and for generating sales referrals for the affiliates. Conversely, the value Pacific Bell derives from the *compensated* intangible - the \$400 million it pays for use of the SBC name - is not immediately evident. For example, it is not clear whether replacing the name "Pacific Bell" with "SBC" or adding "SBC" to "Pacific Bell" has had any effect on Pacific Bell, or, if it has, whether the effect has been positive or negative.

#### D. <u>Affiliate Transaction Policy Considerations</u>

As noted above, Overland is not aware of Commission policy specifically addressing the use of regulated telephone company systems and databases by affiliates. We believe the following considerations are relevant to the development of affiliate transactions policy in this area.

 Affiliate Transactions Rules adopted for electric and gas utilities. The Commission adopted a set of rules to govern relationships between electric and gas utilities and their affiliates in Decision 97-12-088. In general, these rules are restrictive with respect to utility sales referrals and the provision of utility customer information to affiliates. The rules applicable to customer data and joint marketing include the following:

<u>III-E-1 through III-E-5:Nondiscrimination- Business Development and Customer Relations</u>: Except as otherwise provided by these rules, a utility shall not: 1. provide leads to its affiliates; 2. solicit business on behalf of its affiliates; 3. acquire information on behalf of or to provide to its affiliates; [or] 4. share market analysis reports or any other types of proprietary or non-publicly available reports, including but not limited to market, forecast, planning or strategic reports, with its affiliates . . . <sup>18</sup>

<u>IV-A Disclosure and Information – Customer Information:</u> A utility shall provide customer information to its affiliates and unaffiliated entities on a strictly non-discriminatory basis, and only with prior affirmative customer written consent.

IV-B Disclosure and Information – Non-Customer Specific Non-Public Information: A utility shall make non-customer specific non-public information, including but not limited to information about a utility's natural gas or electricity purchases, sales, or marketing operations or about the utility's . . goods or services, available to the utility's affiliates only if the utility makes that information

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<sup>&</sup>lt;sup>17</sup> Pacific Bell 2000 financial statements, Note 6 - Related Party Transactions.

<sup>&</sup>lt;sup>18</sup> Decision 97-12-088, Appendix A – Affiliate Transaction Rules.

contemporaneously available to all other service providers on the same terms and conditions, and keeps the information open to public inspection.

<u>V-E Separation – Corporate Support</u>. As a general principle, a utility, its parent holding company, or a separate affiliate created solely to perform corporate support services may share with its affiliates joint corporate oversight, governance, support systems and personnel. . . Examples of services that may not be shared include . . . marketing.

If the rules applicable to California's energy utilities had been applied to Pacific Bell, the transfer of the marketing function to SBC Operations would not have been permitted. This report does not purport to recommend a reversal of the reorganization that produced SBC's shared services affiliates. However, in developing policy for Pacific Bell, it seems logical for the Commission to consider whether circumstances justify applying certain generic energy utility affiliate transaction rules to Pacific Bell. In particular, if the Commission determines that it is reasonable for Pacific Bell to continue providing affiliates access to customer systems and databases without transfer-priced compensation, the Commission should consider whether it is reasonable to require Pacific Bell grant similar access to non-affiliated companies. Given that Pacific Bell has transferred significant operations to shared services affiliates, the implications of the energy utility rules extend well beyond the provision of customer data and sales leads.

- 2. The source of Pacific Bell's customer database and its funding. Pacific Bell's customer database is a product that developed over several decades. Most of its cost was funded by regulated telephone company customers. Pacific Bell is the only company with a nearly complete database of customers in the California telecommunications market areas it serves because until recently Pacific Bell had an exclusive franchise to provide local exchange services in these areas. Although affiliates now pay for some of the maintenance costs incurred by shared services affiliates, the size-based allocation factors used to allocate common customer services, marketing and information services expenses drive the majority of the cost being charged to Pacific Bell.
- 3. Transfer pricing policies and constraints. There are at least three transfer pricing considerations. First, Commission transfer pricing rules generally require sales by a regulated utility to an affiliate to be priced at the *higher* of fully distributed cost or market price. Second, with respect to operational support systems and databases, "fully distributed cost" is something that developed over years and was mostly expensed, rather than accumulated on the balance sheet, making it either very difficult or impossible to quantify.<sup>19</sup> Finally, it is important to consider that even if it could be measured, the "fully distributed cost" of developing and maintaining a large system such as Pacific Bell's customer records system is mostly unrelated its value to an affiliate or a competitor. As such, comparing fully distributed cost and market value for the purpose of determining the proper transfer price is akin to comparing apples and oranges. The value of customer data and the functionality of the customer records system to affiliates is probably more relevant to inter-company transfer pricing than system and database development and maintenance costs.

<sup>&</sup>lt;sup>19</sup> Many utilities only began capitalizing software development costs in the late 1990s as a result of an AICPA Statement of Position concerning software accounting.

- 4. The market value of the customer data. In considering the market value of customer data, the Commission should consider that it may be used for a variety of purposes by a wide range of SBC subsidiaries. The Commission should also consider SBC's basis for determining the value of its name. For example, if SBC considers the use of its name (something that lacks clearly definable benefits) to be worth \$400 million annually to Pacific Bell alone, the Commission should consider the possibility that Pacific Bell's customer database (which has more definable benefits) may be worth at least as much to SBC and its affiliates taken together.
- 5. The competitive advantage provided to affiliates relative to non-affiliated competitors that are not permitted access to the database. To the extent the Commission considers competitive impacts, it should consider the advantages that inure to affiliates with access to a complete local exchange telecommunications database compared to competitors that do not have such access. As noted above, the Commission considered such impacts in developing rules governing affiliate access to information by energy utility affiliates.
- 6. The potential overlap between the market value of customer data and the existing required inter-company compensation for sales referrals. It might be argued that the fee Pacific Bell receives for making sales referrals compensates it for the use of its customer data in making the referrals. First, the Commission should consider whether the amounts charged for sales referrals adequately compensate Pacific Bell for the market value of sales referrals it provides. For example, we identified \$7.8 million in sales referral fees charged by Pacific Bell in 1999. In comparison, SBC's 2000 billing to Pacific Bell for the use of the corporate name exceeded \$400 million. Second, the Commission should consider the possibility that the benefits affiliates gain from access to Pacific Bell's customer database may extend well beyond sales referrals. For example, affiliates may "piggyback" on the telephone customer database to maintain their own customer data, to maintain an ongoing picture of the relationship between their customer and service base and that of the telephone company, and to develop their own individual marketing strategies.
- 7. Other databases and operational support systems. This supplemental chapter deals with the customer system and database. The Commission should recognize that many of the policy considerations applicable to the customer database are also applicable to other operational support systems and databases. Use of other systems and databases may also have been transferred to affiliates. It is possible, if not likely, that Pacific Bell has not been compensated for these transfers.
- 8. The provision of customer data to affiliates and joint utility / affiliate marketing are linked. The use of Pacific Bell's customer data by SBC Operations for the benefit of other SBC affiliates is directly tied to joint marketing activities. It might be useful for the Commission to consider policy governing access to and compensation for Pacific Bell's customer information in the larger context of joint sales and marketing activities.